

Message Text

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SUBJECT: EC MONETARY COMMITTEE REVIEWS EC EXCHANGE MARKET
DEVELOPMENTS AND IMF GOLD ARRANGEMENTS

REF: (A) 75 EC BRUSSELS 10804, (B) EC BRUSSELS 678

1. SUMMARY: EC MONETARY COMMITTEE MEMBERS WERE CRITICAL OF ITALY'S RECENT HANDLING OF ITS FOREIGN EXCHANGE TRADING. THE ITALIAN REPRESENTATIVE SAID THAT THE GOI CURRENTLY PLANS TO TAKE NO RESTRICTIVE TRADE OR FOREIGN EXCHANGE MEASURES. THE FRG DOES NOT PLAN TO RESORT TO BORROWING ON INTERNATIONAL CAPITAL MARKETS AS A MEANS OF ALLEVIATING PRESSURE ON DOMESTIC INTEREST RATES. THE COMMITTEE WANTS TO PARTICIPATE IN PRE-PARING FOR THE CIEC FINANCE COMMISSION. IT ALSO DISCUSSED THE IMF GOLD ARRANGEMENTS INCLUDING TIMING AND PARTICIPATION IN THE G-10 UNDERSTANDING REGARDING CENTRAL BANK GOLD PURCHASES. POEHL, FRG STATE SECRETARY FOR FINANCE, WAS DOMINATED AS THE COMMITTEE'S NEW CHAIRMAN. END SUMMARY.

2. ITALY: THE EC MONETARY COMMITTEE DISCUSSED ON JANUARY 31 IN BRUSSELS RECENT FOREIGN EXCHANGE DEVELOPMENTS. THE ITALIAN REPRESENTATIVES REASSURED THE COMMITTEE THAT THE GOI DID NOT INTEND TO TAKE ANY MEASURES TO RESTRICT FOREIGN TRADE AND FOREIGN

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EXCHANGE DEALINGS. THE GOI, HOWEVER, DID NOT RULE OUT THE POSSI-

BILITY OF REIMPOSING PRIOR DEPOSITS ON IMPORTS, BUT IT DOES NOT CURRENTLY PLAN TO DO SO. ONCE A NEW GOVERNMENT IS ORGANIZED, THERE COULD BE CONSIDERATION OF THE BANK OF ITALY RESUMING FOREIGN EXCHANGE INTERVENTIONS. SEVERAL REPRESENTATIVES CRITICIZED GOI HANDLING OF THE PUBLIC ANNOUNCEMENTS THAT THE BANK OF ITALY WAS STOPPING ALL OFFICIAL EXCHANGE MARKET ACTIVITIES. THESE CRITICS THOUGHT A QUIET WITHDRAWAL FROM THE MARKET WOULD HAVE AVOIDED MUCH OF THE SUBSEQUENT RUN AGAINST THE LIRA. THIS RUND HAD AFFECTED OTHER EC COUNTRIES, EXPECIALLY THE FRENCH FRANC AND THE POUND.

2. STUDY OF OFFICIAL QUOTATIONS: THE ITALIAN DISCUSSION INDICATED THAT MEMBER STATES FOLLOW DIFFERENT PROCEDURES IN SETTING THE DAILY OFFICIAL EXCHANGE RATE QUOTATIONS. THE COMMITTEE DECIDED TO UNDERTAKE A STUDY OF HOW THESE PRODECURES MIGHT BE HARMONIZED.

3. FRANCE: FRENCH REPRESENTATIVES SAID THAT RECENT SPECULATION AGAINST THE FF WAS JUST A STORM IN A TEAPOT, PRECIPITATED BY THE LIRA CRISIS. THERE WAS NO UNDERLYING REASON FOR THE SPECULATION, AND IT HAS SUBSEQUENTLY DISSIPATED.

4. FRG: GERMAN OFFICIALS ASSURED THE COMMITTEE THAT THE FRG HAD NO PLANS TO MAKE ADDITIONAL BORROWINGS ON INTERNATIONAL CAPITAL MARKETS. THE FRG OBVIOUSLY HAS SUFFICIENT FOREIGN EXCHANGE RESERVES TO DOVER ITS FINANCING NEEDS. THERE IS ALSO SUFFICIENT DOMESTIC CAPITAL TO FINANCE ITS BUDGETARY NEEDS. DOMESTIC BORROWINGS CAN CONSEQUENTLY BE CARRIED OUT WITHOUT INTERFERING WITH FRG INTENTIONS OF KEEPING ITS DOMESTIC INTEREST RATES DOWN. THE FRG, HOWEVER, DOES NOT INTEND TO PREVENT FOREIGN INVESTORS FROM PURCHASING ITS DOMESTIC SECURITIES.

5. EC LOAN CONDITIONS: THE COMMITTEE PLANS TO REVIEW THE GOI'S RECENT BUDGET STATEMENT TO ASSURE THAT IT IS CONSISTENT WITH THE ECONOMIC POLICY CONDITIONS SET FORTH FOR A LOAN TO IRELAND FROM THE COMMON BORROWING FACILITY (SEE REF A). THE EC FINANCE COUNCIL PLANS TO TAKE UP THE LOAN PROPOSAL AT ITS FEBRUARY 16 MEETING. THE COMMITTEE ALSO PLANS TO REVISE THE CONDITIONS FOR ITALY IN LIGHT OF RECENT DEVELOPMENTS.

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6. PREPARATION FOR CIEC FINANCE COMMISSION: THE COMMITTEE IS CONCERNED OVER THE CENTRALIZATION OF CIEC PREPARATIONS IN THE COMMITTEE OF PERMANENT REPRESENTATIVES. IT BELIEVES THAT THE FOREIGN MINISTRIES HAVE TOO LARGE A ROLE IN CIEC FINANCIAL AFFAIRS. IT IS CONSEQUENTLY RECOMMENDING TO THE EC FINANCE COUNCIL THAT THE COMMITTEE BE REQUESTED TO COORDINATE BROAD POLICY ISSUES COMING UP IN THE FINANCE COMMISSION. THE EC CO-SPOKESMAN OF THE FINANCE COMMISSION, JAANS, WAS ASKED TO

PREPARE A LIST OF TOPICS THAT THE COMMITTEE MIGHT TAKE UP.

7. IMF GOLD: THE MONETARY COMMITTEE DISCUSSED THE IMPLEMENTATION OF THE GOLD ARRANGEMENTS COMING OUT OF THE IMF INTERIM COMMITTEE MEETING. THE FRENCH REPRESENTATIVE REFERRED TO THE UNDERSTANDING BETWEEN G-10 CENTRAL BANKS NOT TO INCREASE THEIR NET GOLD STOCKS AND SUGGESTED THAT THE TWO-YEAR PERIOD OF THIS UNDERSTANDING SHOULD BEING ON ABOUT JANUARY 1, 1976. THERE WAS NO OBJECTION TO THIS PROPOSAL. THE COMMITTEE AGREED THAT THIRD COUNTRIES SHOULD BE ALLOWED TO PARTICIPATE IN THIS UNDERSTANDING ONLY A SELECTIVE BASIS. THE COMMITTEE ALSO PROPOSES THAT THE G-10 BANKS SHOULD EXCLUDE FROM THE G-10 CALCULATIONS OF IMF-G-10 GOLD HOLDINGS THE IMF GOLD WHICH WILL BE RETURNED TO NON-G-10 IMF MEMBERS.

8. CONVERTIBILITY OF FOREIGN HELD BALANCES: THE COMMITTEE OBJECTED TO AN IMF STAFF PROPOSAL THAT ARTICLE 8.4 OF THE IMF ARTICLES OF AGREEMENT BE AMENDED TO DELETE THE OBLIGATION OF MAINTAINING CONVERTIBILITY OF FOREIGN HELD BALANCES. (SOME COMMITTEE MEMBERS ALLEGED THAT US AUTHORITIES HAVE INSPIRED THIS PROPOSAL.) TO BE CONSISTENT WITH THE PROPOSED NEW ARTICLE IV, THE COMMITTEE SUGGESTS THAT ARTICLE VIII BE AMENDED TO INDICATE THAT ONLY COUNTRIES WHICH HAVE NOT FIXED A PAR VALUE SHOULD NOT HAVE TO OBSERVE THE ARTICLE VIII CONVERTIBILITY OBLIGATION. COMMITTEE MEMBERS DECIDED TO INSTRUCT THEIR IMF EXECUTIVE DIRECTORS TO PURSUE THIS DECISION.

7. NEW OFFICIERS: THE COMMITTEE NOMINATED C.O. POEHL, FRG STATE SECRETARY FOR FINANCE, TO REPLACE OORT AS ITS CHAIRMAN. IT ALSO HAS NOMINATED THREE DEPUTY CHAIRMEN: J.Y. HABERER, FRENCH DEP. DIR. OF THE TREASURY; S. PALUMBO, ITALIAN GEN. DIR. OF THE TREASURY; AND S. ANDERSEN, DEPUTY GOVERNOR, NATIONAL BANK OF DENMARK. THE OFFICE TERMS WILL BE TWO YEARS. MORRIS LIMITED OFFICIAL USE

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